

OPENING STATEMENT OF REP. SPENCER BACHUS
MARCH 13, 2001 HEARING ON BUSINESS CHECKING AND STERILE
RESERVES

This hearing of the Subcommittee on Financial Institutions and Consumer Credit will come to order.

Today, the Subcommittee convenes to consider two separate but related proposals: (1) repealing the current ban on the payment of interest on business checking accounts; and (2) permitting interest to be paid on funds that banks and other depository institutions are required by law to maintain at the Federal Reserve Banks.

The eyes of most Americans may glaze over at mention of the two issues we take up this afternoon. Yet as this Committee seeks to continue the work of modernizing our financial system begun by the last Congress with enactment of the historic Gramm-Leach-Bliley Act, both are of critical importance.

Like many of the outdated provisions repealed by Gramm-Leach-Bliley, the ban on paying interest on business checking accounts is a Depression-era relic that has long since outlived its usefulness. When originally enacted in 1933, the ban was designed to protect small rural banks from having to compete for depositors with larger institutions based upon which could offer customers a higher interest rate. Even if once valid, this policy justification is simply no longer relevant in a competitive landscape where banks must compete not merely against each another, but against a host of other non-bank financial firms offering a wide range of interest-bearing products.

The prohibition on paying interest to business checking customers is one of many factors contributing to a "liquidity crunch" for our Nation's small community banks. Faced in many cases with declining deposits coupled with strong demand for loans in their communities, small banks are caught in a vise, and are increasingly forced to seek funding from the Federal Home Loan Bank System and other non-traditional sources.

Unable to earn income on their checking account balances, small businesses in areas served by community banks have a powerful bottom-line incentive to take their business elsewhere. Not surprisingly, many have chosen to do exactly that, by opening cash management accounts at local brokerage firms or parking their assets in other interest-bearing vehicles outside the banking system. Repealing the ban on interest on business checking accounts will free banks to compete for such deposits on a level playing field, and promote the development of bank products and services geared toward a corporate clientele that is ill-served by the current prohibition.

The second issue that we address at today's hearing is in some sense the "flip side" of the first. Under current law, depository institutions are required to hold reserves at the Federal Reserve Banks against transaction accounts maintained by the institutions' customers. No interest is paid on these reserves. Banks have argued –

persuasively, in my view – that if the law is changed to permit interest to be paid on business checking accounts, a corresponding change should be made to authorize payment of interest on the reserves that banks are required by law to maintain at the Federal Reserve Banks. In addition, as we will hear in a moment from Federal Reserve Governor Meyer, failure to act in this area not only disadvantages banks, but it may at some point begin to have adverse consequences for the Fed's ability to conduct our Nation's monetary policy.

Last year, the House passed legislation that would have repealed the prohibition on interest payments on business checking accounts, but the bill died in the Senate. Similarly, this Committee favorably reported legislation to authorize the Federal Reserve to pay interest on statutorily required reserves, but the full House did not act on the bill. Two respected Members of this Subcommittee, Mrs. Kelly and Mr. Toomey, have taken the lead this year in reintroducing these important proposals, and I look forward to working with them and with Chairman Oxley to make sure that this Congress succeeds where past ones have failed.

Before recognizing Mrs. Waters for an opening statement, let me welcome all of our witnesses to today's hearing, and extend a special welcome to Bob Gullledge, President of Citizens Bank of Robertsdale, Alabama, who was just last week elected Chairman of the Independent Community Bankers of America. We congratulate Bob on his appointment, and we know that he will do Alabama proud in carrying out his new responsibilities.

Let me now recognize the Ranking Member, Mrs. Waters, for any opening statement she would like to make.